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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 26, 1998

APPLICATION OF

THE POTOMAC EDISON COMPANY

CASE NO. PUE980049

To revise its fuel factor

ORDER ESTABLISHING 1998-99 FUEL FACTOR

On January 16, 1998, The Potomac Edison Company ("Potomac Edison" or "the Company") d/b/a Allegheny Power filed with the Commission an application, together with written testimony, exhibits, and proposed tariffs supporting its request that the currently operative fuel factor be increased from 1.181¢ per kWh to 1.278¢ per kWh effective with March 1998 cycle bills rendered on and after March 9, 1998.

By Order dated January 23, 1998, the Commission established a procedural schedule and set a hearing date. In that Order, the Commission directed its Staff to file testimony and provided an opportunity for any interested person to participate in the hearing as a Protestant. No notice of protest or protest was received in this proceeding. On February 17, 1998, Staff filed its testimony wherein it recommended that Potomac Edison's proposed estimates of energy sales and fuel prices used in the development of the proposed fuel factor be accepted as

reasonable. Staff also recommended a total fuel factor of 1.278¢ per kWh to become effective with March 1998 cycle bills rendered on and after March 9, 1998.

The hearing was held on February 25, 1998. The Company tendered its proof of service at the commencement of the hearing.

Upon consideration of the record in this case, the Commission is of the opinion that the proposed total fuel factor of 1.278¢ per kWh is appropriate based in part on projected fuel expenses. Approval of this factor, however, is not construed as approval of the Company's actual fuel expenses. For each calendar year, the Commission's Staff conducts an audit and investigation which addresses, among other things, the appropriateness and reasonableness of the Company's booked fuel expenses. Staff's results are documented in an Annual Report ("Staff's Annual Report"). A copy of Staff's Annual Report is sent to the Company and to each party who participated in the Company's last fuel factor proceeding, all of whom are provided with an opportunity to comment and request a hearing on the report.

Based on Staff's Annual Report, and any comments or hearing thereon, the Commission enters an Order entitled "Final Audit for twelve-month period ending December 31, 19__, Fuel Cost-Recovery Position," hereinafter referred to as "Final Audit Order." Notwithstanding any findings made by the Commission in an earlier order establishing the Company's fuel factor based on estimates

of future expenses and unaudited booked expenses, the Final Audit Order will be the final determination of not only what are in fact allowable fuel expenses and credits, but also the Company's over or underrecovery position as of the end of the audit period. Should the Commission find in its Final Audit Order (1) that any component of the Company's actual fuel expenses or credits has been inappropriately included or excluded, or (2) that the Company has failed to make every reasonable effort to minimize fuel costs or has made decisions resulting in unreasonable fuel cost, the Company's recovery position will be adjusted. This adjustment will be reflected in the recovery position at the time of the Company's next fuel factor proceeding. We reiterate that no finding in this order is final, as this matter is continued generally, pending Staff's audit of actual fuel expenses. Accordingly,

IT IS ORDERED THAT:

(1) A total fuel factor of 1.278¢ per kWh be, and hereby is, approved and effective with Potomac Edison's March 1998 cycle bills rendered on and after March 9, 1998.

(2) This case shall be continued generally.